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C O N F I D E N T I A L SECTION 01 OF 02 SHENYANG 000037

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DEPARTMENT FOR EAP/CM, EAP/K

E.O. 12958: DECL: TEN YEARS AFTER KOREAN UNIFICATION

TAGS: [PREL](#) [PINR](#) [PGOV](#) [ECON](#) [ETRD](#) [PREF](#) [KN](#) [KS](#) [CH](#)

SUBJECT: NEW DEVELOPMENTS IN PRC-DPRK BORDER TRADE

REF: A. (A) SHENYANG 30

[1](#)B. (B) SHENYANG 14

Classified By: CONSUL GENERAL STEPHEN B. WICKMAN. REASONS:
1.4(b)/(d).

[1](#)1. (C) SUMMARY: New PRC export restrictions are complicating some PRC-DPRK trade and contractual relationships, according to more Chinese trade officials. North Korean businessmen have been sent abroad recently on grain "purchasing" missions, essentially requesting free "donations" in places like Thailand. PRC borderland provinces recently enacted new measures aimed at capturing PRC-DPRK border trade transactions within the Chinese banking system, but the impact of the new rules remains unclear. Chinese Korea specialists remain concerned about North Korea's food supply this year. North Korean demand for more sophisticated Chinese electronics is growing, say Chinese trade officials. END SUMMARY.

PRC EXPORT STRICTURES RESHAPING PRC-DPRK TRADE

[1](#)2. (C) New PRC export restrictions (ref B) appear to be reshaping some PRC-DPRK trade and contractual relationships, according to Chinese trade officials. (These comments echo sentiments shared by other trade officials noted in ref A.) Queried on how trade between Liaoning Province--home of Dandong, conduit for the majority of official PRC-DPRK bilateral trade--and neighboring North Korea is faring, provincial trade officials in Shenyang acknowledged stresses on DPRK-bound agricultural shipments. However, the trade officials were quick to emphasize that the Chinese measures apply equally to all countries and do not specifically target North Korea. SUN Su (STRICTLY PROTECT), Deputy Director of the Liaoning Provincial Foreign Trade and Economic Cooperation Bureau's Foreign Trade Promotion Division, told visiting INR/GGI analyst Mark Phelan on March 12 that the new export restrictions raise problems for some Chinese firms in carrying out existing contracts with North Korean partners. But Sun claimed no "special" exception or exemption would be made for DPRK-bound shipments. (NOTE: Other trade officials told us privately in recent weeks that, concerned about border stability, Dandong and Liaoning officials are internally lobbying Beijing for an exemption for non-aid PRC-DPRK trade (ref A). END NOTE.)

13. (C) Some North Korean businessmen have been sent abroad recently on grain "purchasing" missions in Southeast Asia, according to a Chinese DPRK specialist with North Korean contacts. The specialist told Poloff that two destinations are Thailand and Vietnam, where the North Koreans are essentially requesting free "donations" from private producers (e.g., of rice) in a bid to supplement domestic supply, which he said has been constrained in part by China's new agricultural export regulations.

14. (SBU) In China, meanwhile, several local reports recently indicated large surges in DPRK-bound grain exports at several key points along the PRC-DPRK border in January/February as shippers rushed to fill orders before their export permits expired. In southern Jilin Province, for instance, the border city of Ji'an--opposite Manpo--announced a 67 percent increase in corn exports to the DPRK in January/February 2008 compared to the same period last year. The dominant shipper, according to an online report posted by the Ji'an government, was an out-of-province firm from Dandong rushing to ship before its export permit--and its entitlement to tax rebates--expired at the end of the month. Farther north in the Yanbian Korean Autonomous Prefecture's Hunchun--home to the PRC land port closest to the DPRK's Rajin/Rason--one of several contradictory local press reports suggested a similarly-sized uptick in rice exports to the DPRK in January 2008 compared to the same period last year.

PRC OFFICIALS ON MORE NEW PRC-DPRK TRADE REGS

15. (SBU) Liaoning and Jilin provinces in late February announced new regulations aimed at standardizing the

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settlement of PRC-DPRK border trade. The impact of the new measures, touted in the northeastern Chinese press, remains unclear. Sun Su, the Liaoning trade official, explained the new rules permit traders to use PRC trade banks to process payment and settle accounts through a variety of methods. Although press reports claim the new measures will decrease transaction costs and minimize credit risk, Sun intimated that the purpose was more regulatory in nature: to capture border trade transactions within the banking system. In the past, Sun noted, payment was usually handled outside banking channels--informally and often in cash.

16. (C) Queried whether the new regulations would make border trade more difficult or cumbersome in the short term, Sun claimed only that the measures were "welcomed" by both sides and would promote the "healthy development" of PRC-DPRK trade. He contended, however, that barter trade, already "very small" in value, might decrease because of the monetization of trade. (NOTE: We find it unlikely that the new measures, at least in the near term, will play a major role in suddenly "standardizing" PRC-DPRK trade. While the new measures theoretically offer potential benefits, some mentioned above, the challenges are many. To name just one: a fair amount of border trade, especially farther north along the border, is small-volume and most easily conducted in cash without the cumbersome, time-consuming and perhaps profit-infringing resort to banking channels. We also have yet to hear of an enforcement mechanism that will ensure most transactions occur, especially those of highest value, within the banking system. END NOTE.)

PRC-DPRK TRADE IN 2008

17. (C) Northeastern Chinese Korea experts remain concerned about North Korea's food supply this year, but when probed about recent PRC agricultural export restrictions, some suggest Chinese sympathy is not universal. One government scholar, for instance, cautioned that the DPRK in recent

years imposed its own set of restrictions on exports (e.g., lumber, iron ore) of great interest to the PRC. For their part, Liaoning trade officials on March 12 actively skirted questions about what percentage agricultural products currently comprise of Liaoning's exports to the DPRK. CHEN Deping (STRICTLY PROTECT), Director of the Liaoning Provincial Foreign Trade and Economic Cooperation Bureau's Foreign Trade Promotion Division, offered only that there was no major change in Liaoning's grain exports--primarily rice and corn--to the DPRK in 2007. He contended that "most important" to North Korea were Chinese exports of machinery and oil.

18. (C) On PRC-DPRK trade more broadly, Chen's deputy, Sun Su, noted that two-way PRC-DPRK trade in 2007 reached USD 1.98 billion, approximately 70 percent of which transited Dandong. Despite the increase over 2006 (when two-way trade was roughly USD 1.7 billion), PRC-DPRK trade growth lagged behind China's overall external trade growth of roughly twenty percent, according to Sun. Asked to comment on ongoing and future trends, Chen claimed some limited economic improvement in the DPRK has spurred North Korean demand for more sophisticated Chinese electronics (e.g., USB drives, MP3 players, LCD televisions). He projected--without reference to United Nations Security Council Resolution 1718--that these products would fare well at Pyongyang's major trade expositions in May and September this year.

WICKMAN